

Message Text

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ACTION ARA-14

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PASS TO OED/MEPD AND OIM

E.O. 11652: N/A
TAGS: BENC, VE
SUBJECT: MAJOR PROJECT: CORPOZULIA COAL AND STEEL
PROJECTS

REF: CARACAS 6890

AMBASSADOR HAS HAD THOROUGH DISCUSSION WITH FERNANDO
CHUMACEIRO PRESIDENT OF CORPOZULIA TAKING AS POINT OF
DEPARTURE RESERVATIONS U.S. FIRMS HAVE REGARDING
IMMEDIACY OF CORPOZULIA STEEL AND COAL PROJECTS
EXPRESSED IN CONGER TO PERKINS OFFICIAL INFORMAL.

(1) ROLE OF BRITISH STEEL IN STEEL PROJECT WILL BE
LIMITED TO DRAFTING OF EQUIPMENT SPECIFICATIONS, WITH
NO PROJECT MANAGEMENT OR PROCUREMENT RESPONSIBILITIES
AS OF NOW. CHUMACEIRO REPEATEDLY STATED THAT AS A
MATTER OF REGIONAL PRIDE CORPOZULIA WOULD MAINTAIN
CONTROL OF PROJECT.

(2) FORM OF CORPORATION. NATIONAL GOVERNMENT NOW
STUDYING FORMATION OF SIDERZULIA AS A MIXED PUBLIC/
PRIVATE ENTERPRISE WITH SUBSTANTIAL FOREIGN EQUITY
CAPITAL PARTICIPATION. CHUMACEIRO WILL OPPOSE ON
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BASIS THAT PROJECTED RATE OF RETURN, WITH SALES LIMITED
TO DOMESTIC MARKET, AND WITH POLITICAL RESTRICTION
PROSPECTIVELY TO BE IMPOSED I.E. REVERSION TO VENEZUELAN
OWNERSHIP WITHIN FIFTEEN YEARS, MAKE PROJECT UNATTRACTIVE
TO FOREIGN INVESTORS. HOWEVER, SOME INVESTORS MIGHT BE
INTERESTED IF THEY CAN REALIZE PORTION OF RETURN ON
INVESTMENT THROUGH PROFIT ON SALE OF PLANT EQUIPMENT.

ALTERNATIVE CORPORATE FORM WOULD INCLUDE NO FOREIGN JOINT VENTURE PARTNER WITH EQUIPMENT PROCURED AT PUBLIC LICITATION AND WITH AN OPERATING CONTRACT FOR PLANT INSTALLATION AND MANAGEMENT. CHUMACEIRO REITERATED THAT HIS INTENTION WAS TO MAINTAIN CORPOZULIA CONTROL. IF FUNDS WERE PROVIDED BY FONDO DE INVERSIONES DE VENEZUELA, FOR INSTANCE, THEY WOULD BE LOANED TO CORPOZULIA WHICH IN TURN WOULD INVEST IN SIDERZULIA EQUITY.

(3) TIMING. CHUMACEIRO OF OPINION THAT THOSE U.S. FIRMS WISHING TO MAKE PROPOSALS ON EQUIPMENT SHOULD VISIT VENEZUELA ASAP. THOSE INTERESTED IN INVESTING OR MANAGEMENT CONTRACT SHOULD COME LATER. RE COAL PROJECT, FEASIBILITY STUDY BY EISENBAU ESSEN WILL BE FINISHED IN OCTOBER.

(4) OPPORTUNITIES FOR U.S. CHUMACEIRO FEELS THAT U.S. SHOULD HAVE NATURAL ADVANTAGE IN COAL PROJECT AND THAT U.S. FIRMS SHOULD PARTICIPATE IN NEXT STATE, I.E., PREPARATION OF EQUIPMENT SPECIFICATIONS, WITH EVERY EXPECTATION THAT THIS WOULD LEAD TO FULL OPERATING CONTRACT. WITH REGARD TO STEEL MILL EQUIPMENT, CHUMACEIRO OF OPINION U.S. IN GOOD SHAPE IF PROJECT GOES TO PUBLIC LICITATION AND THAT GOOD OPPORTUNITY FOR MANAGEMENT CONTRACTS EXISTS. NO DECISION YET ON EQUIPMENT, EITHER Q-BOP OR TOP-BLOWN BASIC OXYGEN FURNACE PLUS LIMITED OFFICIAL USE

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EQUIPMENT CITED EARLIER TELEGRAMS.

(5) ACTION REQUEST: AMBASSADOR ADVANCED POSSIBILITY OF VISIT TO U.S. FOR CORPOZULIA OFFICIALS ORGANIZED BY IRON AND STEEL INSTITUTE OR OTHER SIMILAR TRADE ORGANIZATION. CHUMACEIRO RECEPTIVE. LIKEWISE RE VIST TO OPEN PIT AND STRIP MINING OPERATIONS. CONVERSELY, HE INDICATED CORPOZULIA RECEIVING MANY VISITORS AND WOULD WELCOME OPPORTUNITY TO MAKE MAJOR BRIEFING PRESENTATION FOR VISITING GROUP OF U.S. FIRMS POTENTIALY INTERESTED IN INVESTMENT, MANAGEMENT CONTRACT, AND EQUIPMENT SUPPLY TO STEEL PROJECT. WHILE EMBASSY RESPECTS BUSINESS JUDGMENTS IMPLICIT IN U.S. FIRMS RELUCTANCE TO COMMIT RESOURCES NOW TO PURSUING CORPOZULIA PROJECTS, WE COMMENT THAT CORPOZULIA HAS SURMOUNTED SEVERE OBSTACLES TO BRING PROJECTS TO PRESENT STAGE AND CAN BE EXPECTED TO CONTINUE TO MAKE PROGRESS.

(6) ADDED INFORMATION: LOCAL PRESS REPORTED LONDON DATELINE STORY THAT BRITISH STEEL HAD SIGNED CONTRACT FOR DOLLARS 36 MILLION. BRITISH COMMERCIAL COUNSELLOR HERE DENIED THIS REPORT, SAYING THAT PROSPECTIVE CONTRACT

ONLY FOR ONE MILLION POUNDS, TO DEFINE PRODUCTION
PROCESS AND EQUIPMENT NEEDS, USING STAFF FROM LAS
TRUCHAS MEXICO PROJECT. HE ADDED THAT HE UNDERSTOOD
THE FONDO DE INVERSIONES DE VENEZUELA HAD ASKED THE WORLD
BANK TO REVIEW BASIC PARAMETERS OF THE TWO PROJECTS.
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